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# THE ECONOMIC WEAPON

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*In the War Against Germany*

BY

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*"The power of radical decision of a world-war has slipped away from the armies. The strategical situation is conditioned by the world-economic situation. . . . Victories which once would have been absolutely decisive, and the conquest of whole kingdoms, have not brought us nearer to peace."*—General von Freytag-Loringhoven, Deputy-Chief of the German General Staff, in his recently published book *Deductions from the World War*, as quoted in the *Frankfurter Zeitung*.

# THE ECONOMIC WEAPON

IN one of the frank and lucid speeches with which he has lately been enlightening the country, General Smuts spoke of the "economic situation" as "the most important matter of all"—more important, that is, even than the vast military effort on the Western front and elsewhere. It is a big claim to make: but General Smuts is a man who measures his words, and the claim is amply justified. Economic considerations do undoubtedly dominate the whole war-situation, constituting an immeasurable influence in our favour. No one knows this better than the directing minds among the enemy. But as the operation of economic factors is as gradual and invisible as that of armed forces is rapid and resounding, we are apt to be misled—and the enemy does his best to mislead us—by superficial demonstrations and to ignore the more deep-lying and permanent factors which condition the entire situation and must ultimately turn it in our favour.

What is the economic situation? It can be stated in a sentence: *The Central Powers are being besieged by practically the entire world and they have no means at their disposal for bringing the siege to an end.*

It will be most convenient to consider these two aspects of the situation separately—first the siege itself, and then the position as regards the raising of the siege.

To describe the war as a prolonged siege may seem at first sight an exaggeration or a metaphor, because there has never before in history been an investment on such an immense scale. Cities have been besieged, and even provinces, as in the American Civil War; but there seems something absurd and unreal about the siege of half of one con-

tinient and a large slice of another. The German Chancellor took advantage of this very natural feeling when he declared in his speech in December, 1915, that a territory which stretches from Arras to Mesopotamia cannot be reduced by economic pressure. . . . "Does anyone seriously believe," he went on to ask rhetorically, "that we can lose the war on account of a shortage of rubber?" By selecting one article out of many the Chancellor's question, of course, evades the point. But if we ask whether Germany can lose the war on account of a shortage of essential food-stuffs and raw materials, whether, in the Chancellor's own words, she "can be reduced by economic pressure," the answer is emphatically Yes. The peoples of the Central Empires know that they are living in a state of siege, or, as one of their ablest writers, Friedrich Naumann, the author of *Central Europe*, picturesquely calls it, "in an economic prison-house," and that sooner or later a point of exhaustion must be reached. The wiser heads have known it ever since the British declaration of war: for thinking Germans have reflected more upon the implications of sea-power than many of our own countrymen. They were quick to realise the full meaning of British naval supremacy and what it would involve for Germany to be cut off from the seas and markets and supply centres of the world. Three pieces of evidence, out of many which could be cited, are worth giving on this point because of their authoritative character.

Dr. Walter Rathenau, the chairman of the Allgemeine Elektrizitätsgesellschaft, one of the leading German industrial enterprises, and a man in close touch with governing circles in Germany, gave a public lecture in December, 1915, on the organisation of the Raw Materials Department of the German War Office, of which he was the first head. In the course of his lecture, which was subsequently published, he remarked:—

"On the fourth of August of last year, when England declared war, a terrible and unprecedented thing happened—*our country became a besieged fortress*. Closed in by land and sea, it was thrown upon its own resources, and

a prospect of war opened out before us boundless in time and expense, in danger and sacrifice.

"Three days after the declaration of war I could bear the uncertainty as to our position no longer. I asked for an interview with the head of the General War Department, Colonel Scheuch, and was kindly received by him on the evening of August 8th. I explained to him that our country could presumably only be provided for a limited number of months with the indispensable materials for carrying on war. His estimate as to the duration of the war was as considerable as mine, so I had to ask him the question: 'What has been done, what can be done, *to avert the danger of the throttling of Germany?*' Very little had been done. But a great deal *was* to be done, for interest had been awakened. When I returned home, anxious and full of foreboding, I found a telegram from the War Minister, Von Falkenhayn, inviting me to an interview next morning."

The result of that interview, Dr. Rathenau goes on to tell us, was the organisation of a Department for the securing and controlling of raw material supplies; and, thanks to this organisation and to wholesale requisitions at home and in the occupied territories Germany has been able to "make both ends meet" in the military sphere up to the present time—at the expense of the civilian population. But the supplies thus obtained and husbanded are not a widow's cruse. They cannot be magically renewed; and all the recent evidence goes to show that it is those who are nearest the centre of things who are most anxious about the situation.

Thus, to come to our second piece of evidence, Dr. Heinrich Pudor, of Leipzig, an economist, who mentions incidentally that he has been at work at the Raw Materials Department of the German War Office on an inventory of the available supplies of iron ore, copper, wolfram, and nickel, recently contributed an article to the July-August, 1917, number of *Weltwirtschaft*, the organ of the German Association for Promoting Foreign Trade, in the course of which he makes the following admission:—

"We must face the fact that our apprehensions about shortage of raw material are well founded, both as regards our manufactures and our military requirements. We must realise that we are now living not only on the remains of our stocks of raw material, but even in large part on shoddy or resurrected materials; neither of these sources of supply can last for ever, and both will be practically exhausted at the end of the war."

The writer does not expressly say that the war will end when, or because, the supplies in question are exhausted; he merely indicates to the German reader that, when the war happens to end, the cupboard will be bare: but the inference is obvious. Such a statement, coming from such a source, is sufficient in itself to explain the eagerness, not of the German people—for that may be attributed to other causes—but of the German military authorities to "extort" a speedy peace.

But, it may be asked, did not the Germans prepare for the war years beforehand, and did they not foresee the need for supplies that would ensue and forearm themselves against it? The answer to this is that the German authorities did prepare for the war, on the economic as well as on the military side, but that they made a double miscalculation. They miscalculated the duration of the war, and they miscalculated the amount of military material that would be needed in modern fighting. The interview recorded just now between Dr. Rathenau and the German War Office official shows how the circumstances attending Great Britain's entry into the war—not itself outside their calculations—caused them to revise their estimate and reckon on the possibility of a long war. We know from other sources that the consumption of material in the early days of the war was so great as to lead to a munitions shortage in Germany long before our own crisis in May, 1915.

But on the point of German economic preparedness a further piece of evidence has come to light which is worth quoting. At a meeting of the Associated German Chambers of Commerce in August, 1916, several speakers se-

verely criticised the Government for its want of foresight in the economic sphere and the inadequacy of its preparatory organisation. This brought a defender of the Government to his feet. He reminded his fellow-members that the Government *had* made preparations in view of a war with England. He recalled the summoning of a Conference at the Ministry of the Interior at Berlin in May, 1914, at which representatives of trade, agriculture, industry, and handicrafts were present, to discuss this very subject on the hypothesis of a war "even with England as an enemy and with a complete blockade of the North Sea": but, as he significantly continues, the plans were made on an estimate "of a war of one year's duration at the outside."

Thus, on the admission of the Germans themselves, "the territory from Arras to Mesopotamia" is, literally speaking, besieged. How soon is the siege likely to be effective? No one can say. It depends on physical and moral, as well as material, factors beyond our power of calculation. What one can say with assurance is that the effect of a shortage of any kind, involving the use of substitutes whether of foodstuffs or materials, is cumulative, and that with every month that the war proceeds the privations of the civil population become more unendurable, and the problems of the military chiefs more difficult of solution. But if one cannot predict the time or the nature of the ultimate collapse, one can tell with fair exactness where the chief points of difficulty arise.

The point where the shoe pinches worst is not that on which most attention has been fixed in this country—foodstuffs. It is true that the food supply in the Central Empires, especially in the industrial districts, has been and still is very inadequate both in quantity and quality, and that the problems attending its distribution have given rise to a very large amount of discontent and discussion between different parts of the country and different classes of the population. The shortage of animal and vegetable fats has been especially felt. It is undeniable that the health of the population has suffered and is suffering severely and that its working power is temporarily and, in

many cases, permanently weakened. Moreover, the lack of feeding-stuffs for animals, of which in particular Germany imported large quantities, has made a gap in the food supply which has led to all sorts of other consequences, acting as one link in a vicious circle from which there is no escape. It is admitted too that, owing to the absence of artificial manures, the soil is becoming worked out and its yield must show a progressive diminution, even apart from the shortage of labour and animals.

Nevertheless it is contended by cool-headed observers that, if Germany holds fast, and if the food regulations are loyally carried out as between town and country, she can, at a pinch, adapt her food supply arrangements to blockade conditions, and "win through," though at the price of great discomfort to all and great suffering to the many. No impartial student of the war expects Germany to be "starved out": some perhaps, for reasons of humanity or policy, neither expect nor desire it. But it is not in the sphere of food-stuffs that the pressure is most severe. It is the deficiency of raw materials of which the German authorities live in most dread.

Germany has built up her economic life, to a far greater extent than any other Continental country, on a foundation of imported raw materials. Endowed by nature with comparatively limited natural advantages and resources, of which coal, iron, and potash are the chief, she owes her prosperity to the industry and technical ability of her people in working up imported raw materials into manufactured articles. Of the total German imports in 1913, 58 per cent. consisted of industrial raw materials and semi-manufactured articles. A glance at the list of these raw materials will show how vital they are, not simply to the maintenance of her civilian population in a civilised condition of life, but also to the upkeep of her military establishment.

Foremost in the list come the fabrics, cotton, wool, silk, and flax, to which must be added hemp and jute. For all of these Germany is very largely dependent on foreign countries; in the case of cotton, silk, and jute, of course,

entirely. The shortage of clothing is now so great that paper-woven fabrics are being largely worn, even as underclothing, in spite of its roughness, while the authorities have long since requisitioned cast-off clothing, and made elaborate arrangements to regulate purchases. By this means the clothing of the army at the front, though not what it was, has so far been passably maintained.

Leather, furs, and rubber constitute another group of indispensable commodities: for the discovery of artificial rubber, so often announced, has not been confirmed, and the various substitutes for shoe leather have not proved satisfactory. "An army," said Napoleon, "marches upon its stomach." But it also marches, more literally, upon its boots; and whatever the Chancellor may say, when the army boot is no longer equal to the task of combating Flanders mud, the days of German resistance on the Western front will be numbered.

A third and still more important group is that comprising mineral resources: copper, tin, platinum, aluminium, nickel, manganese, and other lesser known but equally indispensable minerals, such as wolfram. How important these are, and how anxious is the situation regarding them, may be judged not only from the statement quoted above from the German War Office expert, but from the wholesale requisitioning of church bells and other articles, public or domestic, to be melted down for military use.

In the autumn of 1915, when these preoccupations first began to weigh upon the mind of the German people, the German Government was at pains to persuade its public that the drive through to the Balkans had relieved the position, and that Bulgaria and Turkey would supply the deficiencies of Germany and Austria-Hungary. For about a year the idea that Central Europe (as the area from Antwerp to Bagdad was rather oddly called) was or could be made into a self-contained "economic block" enjoyed great vogue. But closer inspection of the natural resources of that region dissipated the dream. It was realised that domination over the lands from the North Sea to the Persian Gulf, however exclusive and unquestioned, could not

possibly compensate Germany for the breaking off of her oversea connections.

A great reaction set in in favour of unrestricted international trade, and even Naumann, the propagandist of *Central Europe*, has lately recanted and proclaimed his devotion to the cause of "free intercourse." The reason for this *volteface* is best given in the following table, which is taken from an article by a Berlin professor (Dr. Tyzka) in a newspaper specially devoted to Central European questions. The figures speak for themselves:—

THE SHARE OF CENTRAL EUROPE (*i.e.*, AUSTRIA-HUNGARY, ROUMANIA, BULGARIA, SERBIA, GREECE, AND TURKEY) IN SUPPLYING GERMANY WITH INDUSTRIAL RAW MATERIALS IN 1913.

Article.	Import into Germany in thousands of marks.		Percentage from Central Europe.
	Total import.	Import from Central Europe.	
Cotton . . . . .	607,124	2,092	0·03
Wool . . . . .	412,793	3,380	0·08
Copper . . . . .	335,271	—	—
Hides . . . . .	321,699	17,591	5·46
Silk . . . . .	154,691	3,482	2·25
Furs . . . . .	121,864	6,422	5·27
Iron ores . . . . .	227,091	1,961	0·86
Rubber . . . . .	125,939	—	—
Petroleum . . . . .	69,884	11,968	17·12

The same disproportion between the contribution of Central Europe and the rest of the world holds good, broadly speaking, of Germany's imports of food-stuffs and fodder; and it is, of course, obvious that Central Europe can still less replace the outer world as a market for German manufactures. The article in question concludes with an expression of opinion which is repeated in substance by writer after writer on the subject;—

"The most important thing is, and remains that Germany must keep a free hand, and be put in a position to carry through far-reaching connections with the business of the whole world. She must not hang Central Europe like a weight of lead to her feet, to retard her progress in dealing with the outer world; on the contrary, she must *discover a method which will make possible an economic rapprochement with those countries, without prejudice to her economic position in the world as a whole.*"

Is it within her power to "discover" such a "method"? Is Germany, in fact, in a position to cause the siege of her territory to be raised? This is the question to which we must now turn.

It was said above that the Central Powers are being besieged by practically the whole world. This has, of course, only been the case since the adoption of the unrestricted submarine war at the beginning of the present year. As a result of this, the United States broke off diplomatic relations and then declared war, and subsequently, following the American example, other States, hitherto neutral, either severed relations or took the full step of declaring war. The most important among the latter group are Brazil and China, though the action of smaller States, such as Siam and Liberia, and the various Central and South American Republics is not to be lightly dismissed.

The importance of the accession of these numerous States to the Allied ranks is often under-estimated. It is important both as regards the conduct of the siege itself and as regards the conditions of its raising. The actual siege is, of course, being conducted, as it has been from the beginning, by the British Navy, aided by the fleets of the Allies. But so long as a large part of the world remained neutral, and anxious to trade freely with both sides, the work of the besieging force was naturally hampered by diplomatic considerations and respect for "neutral rights." The experience of the war has conclusively demonstrated, even to the peace-loving American people, that neutrality in a conflict between Right and Might is an impossible position to maintain: but it took some time to drive this les-

son home and meanwhile, however much the "politicians" may be criticised for interfering with the work of the "sailors," it must be admitted that British foreign policy has been eminently successful in avoiding conflict on the subject of neutral rights and in facilitating the inevitable transition of those Powers who (unlike the smaller European neutrals) were free to follow the dictates of their feelings from neutrality to active sympathy and intervention. Their support has been and is an immense advantage to the besieging force by cutting off supplies at the source. It was always physically possible, for instance, to interfere with the American trade with Scandinavia: but it is far better that there should be very little trade to be interfered with; and thanks to the United States embargo law, following on the American entry into the war, that is more and more becoming the position.

Thus the siege has been drawn closer year by year as the war has gone on and one loophole after another has been stopped up. It has been pungently said that "the chief achievement of the German army in the war has been to conquer Germany's allies." It may be said with equal truth that the chief achievement of the British Navy in the war has been to conquer the co-operation of the world. Faced with the delicate and invidious duty of interfering with the business arrangements and connections of peace-loving peoples all over the globe, the British Navy has secured recognition by four-fifths of mankind, not simply as a legitimate weapon in the hands of one group of Powers fighting another, but as the executive instrument of the public law of the world.

What is the bearing of all this on the question of the raising of the siege? Simply that the siege does not now depend on the British Navy alone, but on the public policy of the overwhelming majority of the great trading and producing countries of the world. What will happen in the normal course when peace is signed? The British Navy will retire to its peace-stations, its patrols will no longer stop and examine ships, and, so far as the action of armed forces is concerned, trade will resume its normal course.

But will the cessation of the physical blockade of German harbours by itself involve the raising of the siege? Will it ensure the restocking and revictualling of the Central Empires with the food, fodder, raw materials, and other supplies of which they are so much in need? This is the question which is being anxiously asked not only by the directors of German policy but in every intelligent German household. When, and how, is Germany going to secure the cotton and wool, the leather and the rubber, the copper and other commodities which she needs for the health of her population and for the resumption of her commercial and industrial life on its normal basis?

The German Government, like our own, has appointed a Minister of Reconstruction—or rather, to give him his correct bureaucratic title, an “Imperial Commissioner for Transition Economy.” But Reconstruction is no more than a name and a series of paper schemes until the siege has been effectively raised—till the authorities can assure themselves of a sufficiency of the essential supplies. Rapid demobilisation, for instance, will be a matter of importance not only for social and political reasons, but also in order to get the population back to productive work as soon as possible. But without raw materials there can be no industrial employment; and demobilisation without employment ready to hand for the disbanded soldier spells social disorder. As Dr. Dernburg said, in a very frank review of the post-war economic situation in a recent article, “Even a partial period of unemployment would lead to disastrous manifestations,” and for that reason “demobilisation will certainly extend over a long period, however irksome it may be to those with the colours.” The Allies in fact, not by their armed forces but by their command of essential supplies, control the demobilisation of the German army and therewith the whole process of German recuperation.

Germany, who has so often declared that she entered the war to “safeguard her economic future,” has in truth irretrievably compromised it. Instead of securing a position of economic independence such as she considered necessary to the dignity of a “World-Power,” she is placed

in a humiliating position of dependence on a world which she has antagonised. Her agents, open and disguised, are now scouring the markets of the world in the unpromising task of buying up supplies here and there in the hope of being able to ship them after the war. But almost everywhere they go they find opinion turned against them, and the old watchwords and inducements of "business is business" have lost much of their force. The German Government has indeed long since recognised, and allowed its publicists to proclaim, that it cannot face a peace which leaves Germany's present enemies free to adopt any policy they wish in the economic sphere.

So serious is the economic outlook, and so impossible is it to conceal it from the German people, that the chief diplomatic effort of the German Government at the present time is directed to securing a ground of negotiation with the enemy on the basis of the exchange of occupied territory in return for economic concessions, including specific international provisions safeguarding Germany against differential treatment of any kind. Even this, it is recognised, would only very partially avert the trouble: for normal trade is carried on not between Governments but between individuals; and no treaties or guarantees in the world can force the public to buy or merchants to deal in goods which they would prefer not to handle. It is fully recognised that, even when the initial difficulty of securing raw materials has been overcome, Germany's export trade must suffer from psychological difficulties on which she did not count before the war.

But in the immediate post-war period, when the question of supplies will have to be dealt with, trade will be for the most part not between individuals but between Governments. The staple trades of the world will be State-controlled. This is inevitable for two reasons: the world-shortage of shipping and the world-shortage of the chief food-stuffs and raw materials. Shipping will be short because of the submarine campaign and military needs (*e.g.*, the immense movement of troops in demobilisation). Supplies will be short because of the withdrawal of labour

from production, intensified, in some cases, by unfavourable natural conditions. The whole civilised world will be faced, in fact, at the close of hostilities with the prospect of a shortage, if not of a famine, over a period calculated by so cautious a judge as the Permanent Secretary of our Board of Agriculture at no less than three years.

Thus demand will in any case seriously outrun supply; and there will be far more buyers in the world's markets than can be satisfied. Some will have to go short. Who more naturally than Germany? It is not as if the boycott had to be organised. It will come about almost of itself *unless special provision is made in the peace*. Thus it is that the Power which, like a second Napoleon, has overrun vast tracts of territory and sucked them dry is now in the position of having to acknowledge that the conquest of whole kingdoms has left it in the weaker position. Germany has conquered Belgium, Poland, Serbia, Lithuania, Courland and Friuli. But the Allies have conquered cotton, wool, jute, leather, copper, and feeding-stuffs. No one who reads the German Press or follows the manoeuvres of German diplomatic agents can doubt who holds the stronger cards at the present time. Nor, even if the worst came to the worst in disorganised Russia, would the situation be altered.

It is the Western and oversea Allies, with their command of the sea and their control of tropical products, who control the siege. Their position is impregnable, and it grows stronger day by day, simply by the efflux of time. This is not the place in which to suggest how the Allied economic superiority can best be used or what form of economic settlement will best conduce to the establishment of the new order towards which the civilised peoples are aspiring. It is enough to emphasise the fact that the economic weapon is the most powerful in the varied armoury of the Allies, and that, if the Alliance holds together and consolidates its forces, no human power can prevent it from ultimately—and indeed, as all the omens indicate, soon rather than late—bringing victory, final and decisive, to the Allied cause.

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